

DEPARTMENT OF THE ARMY  
Missouri River Division, Corps of Engineers  
P.O. Box 103, Downtown Station  
Omaha, Nebraska 68101

MRDRM-A

MRD Supplement 1 to ER 11-1-26

28 February 1983

Army Program  
CONTRACT AUDIT

Further supplementation of this regulation is not permitted.

ER 11-1-26, 30 May 1980 is supplemented as follows:

Page 2-3, paragraph 2-3b, Audit Procedures. Add subparagraphs (1), (2), and (3) after paragraph b, Working Papers.

(1) The standard MRD format for working paper files and for the work paper summary sheet to be used for mayor items or segments of the program outlined is shown in Appendix D.

(2) The standard MRD work paper numbering system is shown in Appendix E.

(3) The standard MRD indexing method for contract audit files is shown in Appendix F.

Page 2-11, Paragraph h(4), Reporting Requirements. Add subparagraphs (a), and (b) after paragraph h(4).

(a) Page C-11 through C-17 of Appendix C shows an additional example of an Exhibit A, Statement of Contractor's Proposal and Results of Audit Review, explanatory notes thereto and supporting schedules.

(b) The standard MRD report numbering system is shown in Appendix G.

Page 3-4, Paragraph 3-3, Procedures. Add after subparagraph g(2), Audit Requirements, subparagraphs (3) and 4).

(3) In order to prevent or reduce occurrences requiring recoupment of overpayments from contractors the final audit of the contractors basic accounting records will be made concurrently with the review of the contractors final billing invoice.

(4) The Audit Office approval certification statement placed on the contractors final billing invoice and the per audit certification statement placed in the final audit report will show in addition to the amount approved for payment on the contractors final billing, the total cumulative amount approved for payment for the total contract. The total contract payments per audit figure must be reported to the Finance and Accounting Office for reconciliation purposes.

MRD Suppl 1 to ER 11-1-26  
28 Feb 83

Page 3-5, Paragraph 3-3, Procedures. Add the following to paragraph j, Followup. The procedures set forth on page 2-5, Paragraph 2-16, subparagraph (3) and (4) of MRD Supplement 1 to AR 11-7 will be utilized to follow-up on cost reimbursable contract audits.

Page 4-1, Paragraph 4-2b, Cost Sharing Contracts. Add paragraph c, d, and e after paragraph b.

c. Contract Audit Files. Procedures will be established whereby copies of cost sharing contracts and related authorization and payment documents will be furnished to the audit office for review and inclusion in a permanent work paper file for use during verification of work authorized and cost incurred by both the sponsoring entity and the Federal Government.

d. Accounting Records. The Audit Office will take appropriate steps to insure that records maintained by the Government and the sponsor are adequate to determine the allowable first cost contributed by both parties, including periodic reviews of the records maintained by both parties and discussion of deficiencies noted with responsible officials.

e. Payment Review and Reporting Audit Results. Procedures will be established whereby all requests for reimbursement or payments on cost sharing contracts are routed through the Audit Office for review. Whenever a cost sharing contract is physically completed the Audit Office will promptly review the records of cost incurred by the sponsor and the Government and furnish the results of the audit to responsible officials so that action can be taken to equalize the cost incurred in accordance with the terms of the agreement.

Page 4-2, Paragraph 4-3b, Recreational Leases. Add the following. The procedures set forth on page 2-5, paragraph 2-16, subparagraphs (3) and (4) of MRD Supplement 1 to AR 11-7 will be utilized to followup on audits of recreation basis.

FOR THE COMMANDER:

/s/

DONALD M. HARRIS  
Colonel, Corps of Engineers  
Deputy Commander

5 Incl  
pp C-11 thru C-17  
APP D thru G

DISTRIBUTION:

B  
D  
1 cy each DAEN-ASP-R and DAEN-RMA

NAME OF CONTRACTOR  
CONTRACT NUMBER  
Office Symbol CLAIM ID OR CHANGE OR MODIFICATION NO.  
Report No. NAME OF PROJECT & MAJOR SUBDIVISION

STATEMENT OF CONTRACTOR'S PROPOSAL AND RESULTS OF AUDIT REVIEW

RESULTS OF AUDIT (NOTE 1)

| <u>COST ELEMENT</u>   | <u>PROPOSAL</u>       | <u>QUESTIONED</u>   | <u>UNSUPPORTED</u> | <u>UNRESOLVED</u>     | <u>NOTE</u> |
|-----------------------|-----------------------|---------------------|--------------------|-----------------------|-------------|
| Direct Labor          | \$ 822,498            | \$ 20,402           |                    |                       | (2)         |
| Material Cost         | 15,119                |                     |                    |                       | (3)         |
| Add Equipment Cost    | 3,993,675             |                     |                    | \$ 3,993,675          | (3)         |
| Standby Equip Cost    | 1,997,028             |                     |                    | 1,997,028             | (4)         |
| Field Office Overhead | 726,458               | 35,453              |                    |                       | (5)         |
| Home Office Overhead  | <u>989,676</u>        | <u>205,289</u>      |                    |                       | (6)         |
| Subtotal              | \$ 8,544,454          | \$ 261,144          |                    |                       |             |
| Profit                | <u>854,445</u>        | <u>          </u>   |                    |                       |             |
| Subtotal              | \$ 9,398,899          | \$ 261,144          |                    |                       |             |
| Bond Cost             | <u>65,679</u>         | <u>1,429</u>        |                    | <u>          </u>     | (7)         |
| Total                 | \$ 9,464,578<br>===== | \$ 262,573<br>===== |                    | \$ 5,990,703<br>===== |             |

Explanatory Notes:

(1) The results of audit are qualified as described in Paragraphs 1 and 2 of the Introductory Section of this report.

(2) Labor Cost: The variance is explained in Schedules A-1 through A-3.

(3) Material Cost: The contractor has proposed 2,094 cu. yd. of material at \$3.80 per ton. The \$3.80 per ton rate for "select fill" has been verified by audit to paid invoices.

STATEMENT OF CONTRACTOR'S PROPOSAL AND RESULTS OF AUDIT REVIEW (cont'd)

(4) Equipment Cost:

a. The entire additional and standby equipment costs have been classified as unresolved because the contractor has utilized the 1966 ACG Equipment manual as the basis for the claimed cost. According to the contract specifications CERL equipment rates are to be utilized for settlement of contract modifications.

b. Audited CERL Forms 100 for all equipment included in this claim have been submitted to Contract Administration Branch by Disposition Form dated 19 April 1982. Rate calculations using factual data provided should be made by technical personnel.

c. The proposed equipment operating costs consist of fuel, lube, minor repairs, and tires. Fuel cost is based upon the consumption rates for medium usage from the "Caterpillar Performance Handbook". Lube cost is calculated through use of an estimated percentage of fuel cost. Minor repair and tire costs are based upon actual booked expenses for each equipment item during 1980.

d. The audited #2 diesel fuel rates for the contract period are:

|      |             |
|------|-------------|
| 1978 | .39569/gal  |
| 1979 | .63657/gal  |
| 1980 | .84157/gal  |
| 1981 | 1.04046/gal |

(5) Field Office Overhead: The questioned cost is made up of four elements.

a. An apparent math error in the contractor's calculation of payroll cost increased the proposed overhead cost by \$1,688.

b. The audited payroll tax and insurance rates have been applied to the payroll rather than the estimated 14%. This rate application has resulted in a \$8,698 reduction in overhead cost.

c. Disallowance of \$27,143 for Outlet Works Backfill has been made because this is considered a duplication of other portions of the field office overhead.

d. Office rental cost of \$1,300 has been questioned because the cost is not considered an extension in excess of the original contract period. If the negotiators determine that the Government did cause delays to the contractor which require time adjustments to overhead cost, office rental amounting to \$650 was paid every six months by the contractor.

Calculation and detail of the contractor's proposed Field Office Overhead are contained in Schedule A-4.

STATEMENT OF CONTRACTOR'S PROPOSAL AND RESULTS OF AUDIT REVIEW(cont'd)(6) Home Office Overhead:

a. The questioned cost results from the application of the audited 10.46% overhead rate to all proposed cost less direct cost questioned previously. The audited overhead cost is:

$$\$7,498,923 \times .1046 = \$ 784,387$$

The contractor has proposed a home office overhead rate of 13.1%. Due to the duration of the Job and time period of the claim, a weighted average overhead rate has been developed by the auditors for use in evaluating the proposal. Calculation of the rate is shown below.

| <u>Period</u>   | <u>Payroll Cost</u> | <u>%</u>      | <u>Overhead Rate</u> | <u>Weighted Rate</u> |
|-----------------|---------------------|---------------|----------------------|----------------------|
| 5/15 - 12/31/80 | \$ 233,595          | 50.69%        | 7.68%                | 3.89%                |
| 1/01 - 7/15/81  | <u>227,254</u>      | <u>49.31%</u> | 13.32%               | <u>6.57%</u>         |
| Total           | \$ 460,849          | 100.00%       |                      | 10.46%               |

The weighted rates were developed using field office overhead payroll costs as the base for the distribution, since the contractor would not provide access to the Job lost records, which would have been a more realistic base.

(7) Bond Cost:

a. The cost questioned was derived by applying applicable bond rates to the previously questioned cost. No adjustment has been made for profit.

b. The audited bond rates are:

|           |           |                 |
|-----------|-----------|-----------------|
| 1st       | 500,000   | \$12.00/\$1,000 |
| Next      | 2,000,000 | 7.25/\$1,000    |
| Next      | 2,500,000 | 5.75/\$1,000    |
| Next      | 2,500,000 | 5.25/\$1,000    |
| Remainder |           | 4.80/\$1,000    |

1% per month of the premium cost is applied for all time in excess of two years. The bond was effective 16 June 1978.

MRD Suppl 1 to ER 11-1-26  
 APP C  
 28 Feb 83

NAME OF CONTRACTOR  
 CONTRACT NUMBER

Office Symbol      CLAIM ID OR CHANGE OR MODIFICATION NO.  
 Report No.          NAME OF PROJECT & MAJOR SUBDIVISION

SUMMARY OF DIRECT LABOR COST RESULTS

| <u>DISCIPLINE</u>                 | <u>HOURS</u> | <u>PROPOSED</u> | <u>AUDITED</u> | <u>VARIANCE</u> |
|-----------------------------------|--------------|-----------------|----------------|-----------------|
| Operator                          | 45,187.5     | \$587,890       | \$572,978      | \$14,912        |
| Operator (Crane)                  | 99.0         | 1,766           | 1,720          | 46              |
| Laborer                           | 4,372.0      | 36,375          | 35,457         | 918             |
| Teamster                          | 4,843.0      | 65,235          | 63,613         | 1,622           |
| Teamster (K.C. Shop-<br>Reg Time) | 351.0        | 5,802           | 5,553          | 249             |
| Teamster (R.C. Shop-O.T.)         | 80.0         | 1,879           | 1,804          | 75              |
| Operator (R.T.)                   | 2,193.5      | 26,265          | 25,598         | 667             |
| Operator (O.T.)                   | 1,165.0      | 19,495          | 19,467         | 28              |
| Operator (Crane) (R.T.)           | 311.5        | 5,097           | 4,965          | 132             |
| Operator (Crane) (O.T.)           | 262.0        | 6,109           | 6,055          | 54              |
| Laborer (R.T.)                    | 4,746.5      | 36,264          | 35,314         | 950             |
| Laborer (O.T.)                    | 2,160.5      | 23,895          | 23,247         | 648             |
| Teamster (R.T.)                   | 313.5        | 3,890           | 3,793          | 97              |
| Teamster (O.T.)                   | 146.5        | <u>2,536</u>    | <u>2,532</u>   | <u>4</u>        |
|                                   |              | \$822,498       | \$802,096      | \$20,402        |

1. The labor base rates and fringes are in agreement for all disciplines. The labor variance occurs in the payroll tax and insurance rates applied to the base rates. The contractor has proposed an estimated 14% tax and insurance rate for all labor whereas the audit has developed separate actual rates for 1979, 1980, and 1981. The \$20,402 variance shown above has been derived by utilizing the 1980 audited labor rates. Audited labor rate calculations are reflected on Schedules A-2 and A-3 for comparison with the proposed rates.

SCHEDULE A-1

28 Feb 83

NAME OF CONTRACTOR  
CONTRACT NUMBER

Office Symbol      CLAIM ID OR CHANGE OR MODIFICATION NO.  
Report No.      NAME OF PROJECT & MAJOR SUBDIVISION

CALCULATION OF AUDITED LABOR RATES

| <u>DISCIPLINE</u> | <u>PERIOD</u> | <u>BASE RATE</u> | <u>ADJUSTED RATE(1)</u> | <u>FRINGES</u> | <u>TAX &amp; INS.</u> | <u>TOTAL</u> |
|-------------------|---------------|------------------|-------------------------|----------------|-----------------------|--------------|
| Operator          | 1979          | 9.10             | 10.010                  | 1.60           | 1.065                 | 12.675       |
|                   | 1980          | 9.10             | 10.010                  | 1.60           | 1.070                 | 12.68        |
|                   | 1981          | 9.10             | 10.010                  | 1.60           | 1.175                 | 12.785       |
| Operator (Crane)  | 1979          | 12.95            | 14.245                  | 1.60           | 1.520                 | 17.365       |
|                   | 1980          | 12.95            | 14.245                  | 1.60           | 1.524                 | 17.37        |
|                   | 1981          | 12.95            | 14.245                  | 1.60           | 1.672                 | 17.52        |
| Laborer           | 1979          | 6.00             | 6.600                   | .80            | .700                  | 8.10         |
|                   | 1980          | 6.00             | 6.600                   | .80            | .710                  | 8.11         |
|                   | 1981          | 6.00             | 6.600                   | .80            | .775                  | 8.175        |
| Teamster          | 1979          | 9.35             | 10.285                  | 1.75           | 1.094                 | 13.13        |
|                   | 1980          | 9.35             | 10.285                  | 1.75           | 1.100                 | 13.135       |
|                   | 1981          | 9.35             | 10.285                  | 1.75           | 1.207                 | 13.24        |

(1) Adjusted rate includes a factor of 1.1 applied to the base rate for overtime pay worked each day on a ten hour shift. The rate is derived thusly:

$$1.1 = \frac{11 \text{ hrs reg pay}}{10 \text{ hrs per day worked}} = 8 \text{ hrs reg pay} + 2 \text{ hrs overtime at reg rate} + 1 \text{ hr overtime premium}$$

This method of developing labor rates has been used by the contractor in all aspects of the proposal except Move-Ins and Move-Outs and Outlet Works Backfill.

(2) Audited Payroll Tax & Insurance rates used are:

|      |         |
|------|---------|
| 1979 | 10.64%  |
| 1980 | 10.70.% |
| 1981 | 11.74%  |

SCHEDULE A-2

MRD Suppl 1 to ER 11-1-26  
 APP C  
 28 Feb 83

NAME OF CONTRACTOR  
 CONTRACT NUMBER

Office Symbol      CLAIM ID OR CHANGE OR MODIFICATION NO.  
 Report No.          NAME OF PROJECT & MAJOR SUBDIVISION

CALCULATION OF AUDITED LABOR RATES

| <u>DISCIPLINE</u>       | <u>PERIOD</u> | <u>BASIC RATE</u> |                 | <u>FRINGE<br/>BENEFITS</u> | <u>TAX &amp; INS.(1)</u> |                 | <u>TOTAL</u> |                 |
|-------------------------|---------------|-------------------|-----------------|----------------------------|--------------------------|-----------------|--------------|-----------------|
|                         |               | <u>REG.</u>       | <u>OVERTIME</u> |                            | <u>REG.</u>              | <u>OVERTIME</u> | <u>REG</u>   | <u>OVERTIME</u> |
| Operator                | 1979          | 9.10              | 13.65           | 1.60                       | .97                      | 1.45            | 11.67        | 16.70           |
|                         | 1980          | 9.10              | 13.65           | 1.60                       | .97                      | 1.46            | 11.67        | 16.71           |
|                         | 1981          | 9.10              | 13.65           | 1.60                       | 1.07                     | 1.60            | 11.77        | 16.85           |
| Operator<br>(Crane)     | 1979          | 12.95             | 19.43           | 1.60                       | 1.38                     | 2.07            | 15.93        | 23.10           |
|                         | 1980          | 12.95             | 19.43           | 1.60                       | 1.39                     | 2.08            | 15.94        | 23.11           |
|                         | 1981          | 12.95             | 19.43           | 1.60                       | 1.52                     | 2.28            | 16.07        | 23.31           |
| Laborer                 | 1979          | 6.00              | 9.00            | .80                        | .64                      | .96             | 7.44         | 10.76           |
|                         | 1980          | 6.00              | 9.00            | .80                        | .64                      | .96             | 7.44         | 10.76           |
|                         | 1981          | 6.00              | 9.00            | .80                        | .70                      | 1.06            | 7.50         | 10.86           |
| Teamster                | 1979          | 9.35              | 14.03           | 1.75                       | .99                      | 1.49            | 12.09        | 17.27           |
|                         | 1980          | 9.35              | 14.03           | 1.75                       | 1.00                     | 1.50            | 12.10        | 17.28           |
|                         | 1981          | 9.35              | 14.03           | 1.75                       | 1.10                     | 1.65            | 12.20        | 17.43           |
| Teamster<br>(K.C. Shop) | 1979          | 12.17             | 18.25           | 2.35                       | 1.29                     | 1.94            | 15.81        | 22.54           |
|                         | 1980          | 12.17             | 18.25           | 2.35                       | 1.30                     | 1.95            | 15.82        | 22.55           |
|                         | 1981          | 13.01             | 19.51           | 2.35                       | 1.53                     | 2.14            | 16.89        | 24.00           |

(1) Audited Payroll Tax & Insurance Rates used are:

|      |        |
|------|--------|
| 1979 | 10.64% |
| 1980 | 10.70% |
| 1981 | 11.74% |

SCHEDULE A-3



NAME OF CONTRACTOR  
CONTRACT NUMBER

Office Symbol      CLAIM ID OR CHANGE OR MODIFICATION NO.  
Report No.      NAME OF PROJECT & MAJOR SUBDIVISION

FIELD OFFICE OVERHEAD REVIEW

| <u>OVERHEAD ITEM</u>    | <u>PROPOSED</u>    | <u>ADJUSTMENTS</u>    | <u>AUDITED</u>      | <u>REFERENCE</u> |
|-------------------------|--------------------|-----------------------|---------------------|------------------|
| Payroll                 | \$ 459,161         | \$ 1,688              | \$ 460,849          | (a)              |
| Payroll Tax & Insurance | 64,283             | <8,698>               | 55,585              | (b)              |
| Security                | 3,326              |                       | 3,326               |                  |
| Vehicles                | 112,025            |                       | 112,025             |                  |
| Travel                  | 10,896             |                       | 10,896              |                  |
| Telephone               | 8,661              |                       | 8,661               |                  |
| Utilities               | 4,452              |                       | 4,452               |                  |
| Office Rental           | 1,300              | <1,300>               |                     | (d)              |
| Service Labor           | <u>35,211</u>      | <u>          </u>     | <u>35,211</u>       |                  |
| Subtotal                | \$ 699,315         | <\$ 8,310>            | \$ 691,005          |                  |
| Outlet Works Backfill   | <u>27,143</u>      | <u>&lt;27,143&gt;</u> | <u>          </u>   | (c)              |
| Total                   | \$726,458<br>===== | <\$ 35,453><br>=====  | \$ 691,005<br>===== |                  |

Reference:

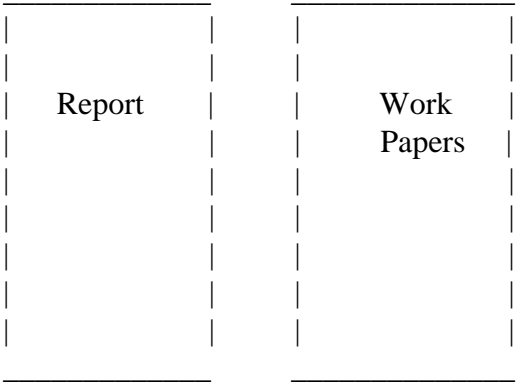
- (a) Math Error
- (b) Use of Audited Rates
- (c) Duplication Coat Included in \$ 699,315
- (d) Fixed Coat Item

APPENDIX D

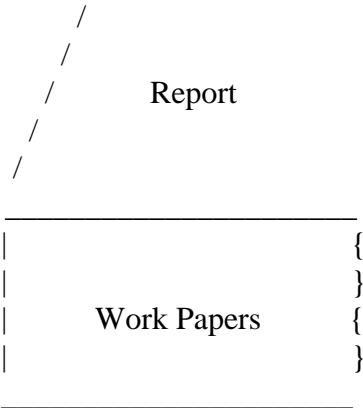
Format Working Papers File

Sample audit folder, format for working papers.

Legal size file folder



Book type file folder



MRD Suppl 1 to ER 11-1-26  
APP D  
28 Feb 83

Format for Work Paper Summary Sheets

Report No. \_\_\_\_\_

Prepared by: \_\_\_\_\_

Date prepared: \_\_\_\_\_

(This is the first page of each segment, H thru Z of work papers.)

HEADING (for all work papers)

Name of Contractor or Review Activity: Title of Audit Contract, Account, Major Subdivision: Area of Audit Period Reviewed: (Applicable to supporting schedules and analysis tabulations)

DOCUMENTATION (content of work paper summaries)

Purpose: Reason for documentation (reference program outline items).

Scope: What examination consisted of, volume of transactions or vouchers involved, number and percentage of documents tested, basis for selection, period of time, etc.

Source: Identity of specific invoice file, record, etc., reviewed if not indicated in headings or special notes. (Applicable to documentation supporting summary sheets such as schedules prepared or compiled by reviewer and to data furnished by the activity)

Conclusions: Narrative explanation or summary results of tests or analysis as evidenced on referenced exhibits or Schedules. Number of discrepancies, exceptions, errors, etc., and legend of tick marks and other Symbols used. When data bearing on conclusions are contained only in records of the activity, work papers should clearly identify the pertinent records and/or documents. References to applicable authority or regulations.

Recommendation:

APPENDIX E  
Working Paper Numbering System

Purpose: To show example of expandable numbering system for working papers (w/p)

Index Numbers for W/P Summaries (Pages H thru Z as needed)

H-1, I-1, J-1, etc. For one page of a series of w/p's in a segment.

H-1, H-2, H-3, etc. For two or more w/p summary pages in same segment.

Index Numbers for W/P Pages Supporting Summary W/P Conclusions

H-1, H-1, H-1, etc. For schedules, analysis sheets, tabulations, exhibits, etc.  
1 2 3

Additional W/P Index Numbers (As Needed)

H-1, H-1, H-1, etc. For still further expansion.  
1-1 1-2 1-3

All work papers should be on a uniform paper size.

All work papers should be securely attached in a properly identified legal size audit file folder.

APPENDIX F

(This is the first page of working paper aide of the file folder for contract audits.)

INDEX

| Report<br>Para. | W/P<br>Ref. | Item   |
|-----------------|-------------|--|
| A               |             | Index (to w/p file)  |
| B               |             | Summary results (cross referenced to w/p's)  |
| C               |             | Contractor's proposal  |
| D               |             | Audit program outline (cross referenced to w/p's)  |
| E               |             | Time control sheet (detail)  |
| F               |             | Background data  |
| G               |             | Contractor's accounting, estimating and purchasing system  |
| H               |             | Conference notes/correspondence/general information  |
| I thru Z        |             | Major segments of program on labor, equipment, materials, direct and indirect overhead, or other w/p segments as needed. |

Supervisory review by: Name \_\_\_\_\_ Date \_\_\_\_\_  
Resident Auditor-in-Charge

Work-days Estimated \_\_\_\_\_ ; Used \_\_\_\_\_

APPENDIX G

Report Numbering System

| Fiscal<br>Year | MRD Audit Branch<br><u>MRDRM-A</u> | Office Symbol                                     |  | Report No.<br>Current<br>_____ |
|----------------|------------------------------------|---|--|--------------------------------|
|                |                                    | Omaha Resident<br>Audit Office<br><u>MRDRM-AO</u> | KC Resident<br>Audit Office<br><u>MRDRM-AK</u> |                                |
| 83             | RMA                                | RMAO  | RMAK   | -1, -2, -3, etc.               |

SAMPLE Report No. 4 for the Kansas City Resident Audit Office would be RMAK-83-04.